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2024 Third Quarter Stock Market Update

Climbing the Wall

October 2024

The third quarter brought more gains to equity investors. The S&P 500® Index returned 5.9% and the Russell 2000® Index advanced 9.3%.Notably, gains broadened to corners of the market other than largecap technology stocks. Year-to-date returns are somewhat staggeringin light of persistent calls for economic weakness and market malaise.Incredibly, both the S&P and Dow Jones Industrial Average have beenpositive for 10 of the last 11 months. The S&P 500 is now up awhopping 22.1% for 2024. Other notable indices arealso up nicely,albeit a bit more subdued than the tech-heavy S&P.

There were a couple sharp pullbacks during the quarter. Signs ofconsumer duress, rising unemployment (although still low byhistorical standards) and slowing economic growth gave way torecession fears. In fact, it seemed the sky was falling just a few weeksago. The Nasdaq Composite was down 13% in a month, the Russell2000 had declined over 3%three days in a row and the S&P wasabout 10% off its highs. Ultimately, stocks managed toshrug offfears and charge to new highs. There's an old saying that stocks"climb a wall ofworry". This has certainly proven to be the case in2024.

It hasn't all been sunshine and roses for the market. As discussed inrecent letters, large technology stocks tethered to the artificialintelligence (AI) theme have dramatically outperformed in 2024.However, many more cyclical areas such as industrials, transports, energy and consumer discretionary have struggled due to broadereconomic fears. Smaller cap stocks, which are generally more economically sensitive, have also lagged significantly (the Russell is up 11.2% YTD). We saw some of these areas perform better in the last quarter, but they could have more recovery potential if we are indeed headed for a soft landing.

Did someone say soft landing? Enter the Federal Reserve. After tremendous buildup and speculation, the Fed cut its benchmark interest rate 50 basis points on September 18th. This was the first rate cut since Covid in March 2020 and followed a long string of raising interest rates in an effort to tame high inflation. The Fed has a dual mandate of subdued inflation and full employment. With inflation down to 2.5% year-over-year, the focus now shifts to the employment side of the equation and avoiding a recession. Rate cuts are currently expected to continue through next year.

It may seem unusual to start lowering interest rates in the absence of any crisis and with economic conditions still okay. Indeed, GDP growth clocked in at 3% in the second quarter

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